RE-Source

European platform for corporate renewable energy sourcing

RE-Source Platform response to the ETS State Aid Guidelines Consultation – 10th March 2020

RE-Source is the European alliance of stakeholders representing clean energy buyers and suppliers for corporate renewable energy sourcing in Europe.

Corporate renewable PPAs are becoming a key driver for investments in new renewable installations in Europe. They enable large energy consumers in the IT, chemicals, heavy industries and other sectors to secure a supply of clean electricity at a competitive price. Corporate renewable PPAs can limit market risk exposure over the contract period and are therefore essential when state revenue stabilization mechanisms - such as CfDs - are not available. These two benefits combined make these PPAs an essential tool to drive a cost-effective energy transition, supporting the competitiveness of European industries.

The EU regulation on indirect cost compensation for Energy Intensive Users (EIUs), has an impact on EIUs choices regarding the sourcing of electricity - including bilateral contracts such as corporate renewable Power Purchase Agreements (PPAs). In this light, the RE-Source platform welcomes the public consultation on the *Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2021* (ETS State Aid Guidelines) launched by the European Commission as part of the thorough fitness check and revision process of the Guidelines related to energy and environment.

The new proposed ETS State Aid Guidelines bring important and positive changes, introducing conditionality requirements for companies to retrieve the indirect costs deriving from the ETS and listing these contracts as part of these requirements (reference to Par. 54 (b) of the draft text). The RE-Source platform strongly supports these developments.

Corporate renewable PPAs significantly contribute to driving down industrial emissions and should therefore be considered a useful instrument companies may choose to reduce their carbon footprint. In this sense, we believe Par. 54 should explicitly refer to *renewable energy* instead of *carbon-free* PPAs, thereby encouraging investments in on-site and off-site renewable capacities, as the most cost-efficient way to reduce the carbon footprint of electricity consumption. The mention of a specific threshold for on-site renewable energy generation (at least 50% of electricity consumption) might be counterproductive with regard to the main objective of the aid, which is to tackle the carbon leakage risk and support competitive investments in clean technologies. The optimal size and cost-efficiency of an on-site renewable installation depends on various factors related to the type of industrial activity and site characteristics. The RE-Source platform therefore recommends that the specific threshold in Par. 54 is removed and that the effective contribution of on-site renewable generation facilities to reduce the carbon footprint of EUIs is assessed on a case by case basis.

In this light, we would suggest that Par. 54 (b) read as follows (amendments in italics):

> "[…] reduce the carbon footprint of their electricity consumption *through sourcing renewable electricity and increasing the share of electricity in their processes*, for example, through installing an on-site renewable energy generation facility ~~*(covering at least 50% of their electricity needs)*~~, or through a *renewable* power purchase agreement; […]"

As opposed to the Guidelines currently in place, the new draft Guidelines are also clearing important ambiguities deriving from Par. 11 of the former. This Paragraph, preventing indirect cost compensation for those 'electricity supply contracts that do not include any CO2 costs', has been interpreted by a few Member States in a way that it creates significant barriers to the deployment of renewable PPAs in those countries.

In Germany and Poland[1], the interpretation of the ETS State Aid Guidelines[2] allows those energy intensives sourcing electricity from conventional power generation to get compensation for the indirect EU ETS costs. On the contrary, those companies sourcing renewable electricity are not entitled to any compensation[3]. This problem is reported also by the study on the "Competitiveness of corporate sourcing of renewable energy in Europe" released by the Directorate-General for Energy on 28 June 2019.

These interpretations might derive from the incorrect assumption that the price of corporate renewable PPAs is independent from the CO2 price levels, whereas in reality the price level of such a PPA is based on

[1] *Act of 19 July 2019 on the compensation system for energy-intensive sectors and sub-sectors*, available at http://prawo.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=WDU20190001532 [accessed in February 2020].

[2] *Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post-2012* (SWD (2012) 130 final) (SWD (2012) 131 final), OJ C 158, 5.6.2012, p. 4–22.

[3] See page 21 of the above-mentioned study.

expectations of future wholesale electricity prices – which are profoundly influenced by the evolution of the costs of CO2 emissions and the impact on marginal costs of power plants[4].

As a consequence, **companies in Germany and Poland are currently discouraged from sourcing renewable electricity as this electricity would cost "substantially more" than the conventional one** and are effectively deprived from a cost-effective solution to decarbonize their electricity supply.

This is distorting competition by restricting market options for sellers and buyers. It is problematic from an internal market perspective as the rules are not implemented in a consistent way across the EU whereas consistency would enhance the integrity of the Internal Market. This is also a missed opportunity to further positioning industries with large investment potential in supporting Europe's clean energy and climate goals.

To further clear any ambiguities, RE-Source suggests amending Par. 11 of the draft new Guidelines as follows (amendments in italics):

> "Under Article 10a(6) of Directive 2003/87/EC, Member States should adopt financial measures in favour of sectors or subsectors which are exposed to a genuine risk of carbon leakage due to significant indirect costs that are actually incurred from greenhouse gas emission costs passed on in electricity prices, provided that such financial measures are in accordance with State aid rules, and in particular do not cause undue distortions of competition in the internal market. *Undue distortions of competition in this context include direct or indirect incentives to procure power from conventional sources over power sourced under supply contracts for electricity from renewable sources*."

Corporate renewable PPAs are an important instrument for the energy transition whose uptake should be facilitated by Member States, following the direction of the 2018 Renewable Energy Directive and Governance Regulation. Adding renewable PPAs to the conditionality to receive state aid, the new Guidelines are setting steps in the right direction clarifying that indirect cost compensation is compatible with signing these contracts.

4 See page 32 of the above-mentioned study.